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**LEVINE, BLASZAK, BLOCK & BOOTHBY, LLP**

1300 CONNECTICUT AVENUE, NW.  
SUITE 500

WASHINGTON, D.C. 20036

(202) 223-4980

FAX (202) 223-0833

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FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

August 8, 1997

**ORIGINAL**

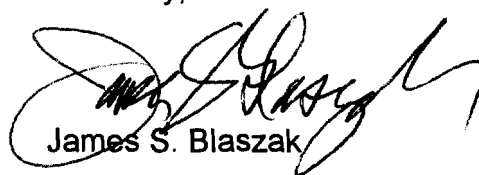
Mr. William F. Caton  
Office of the Secretary  
Federal Communications Commission  
1919 M Street, NW.  
Washington, D.C. 20554

Re: Ex Parte contact in CC Docket No. 96-45

Dear Mr. Caton:

On August 7, 1997, Messrs. Tim Hackman and Steve Stewart of IBM and the undersigned met with Ms. Kathleen Franco of Commissioner Chong's office and Mr. Paul Gallant of Commissioner Quello's office to discuss the above-referenced proceeding. The substance of the discussions is reflected in the attachments to this letter. An original and one copy of this letter and attachments are submitted in accordance with the requirements of sections 1.1200 to 1.1216 of the Commission's rules.

Sincerely,

  
James S. Blaszak

cc with attachments:  
Kathleen Franco  
Paul Gallant

250.02: USF 8797 ex parte

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## **The Commission Should Not Impose Additional Universal Service Contribution Obligations On Systems Integrators**

- IBM fully supports the Commission's Universal Service initiatives.
- Systems Integrators, such as IBM, currently fund, and will continue to fund, Universal Service through the rates that they pay common carriers for telecommunications services.
- The Commission's "competitive neutrality" concerns are inapposite with respect to Systems Integrators. Systems Integrators offer telecommunications services to their customers as incidental to the package of "other" services that they provide; they do not offer telecommunications services as stand alone products. Systems Integrators do not compete with telecommunications carriers.
- If Systems Integrators must make new, distinct Universal Service contributions, problems caused by contribution obligations will shape business decisions, and may cause Systems Integrators to cease offering telecommunications services as incidental portions of their package of services – results precisely contrary to the FCC's stated wishes.
- Imposing new, distinct Universal Service contribution obligations on Systems Integrators will produce an inequitable double recovery that enriches long distance carriers. A net revenue approach would eliminate this problem.
- The administrative burdens on Systems Integrators will be out of proportion to their contribution obligations compared to the contribution obligations of carriers. Granting the relief requested will have no effect on common carrier Universal Service contributions. The Commission used an inappropriate standard in formulating the *de minimus* exemption.
- Systems Integrators currently do not account for telecom. revenues in the manner required by the Worksheet. Developing a new accounting system that is inappropriate for the systems integration business would be a major undertaking that would add significant inefficiencies to the economy.
- Relief requested:
  1. Exempt Systems Integrators from submitting completed Universal Service Worksheet, or allow Systems Integrators to make "qualified" submissions.
  2. Expeditiously grant the Petition for Partial Reconsideration and Clarification filed by the Ad Hoc Telecommunications Users Committee.

## Universal Service Fund Illustration

### Insignificant Effect of Direct Systems Integrator Contribution

#### Assumptions

Universal Service Contribution Base	\$80B
Universal Service Fund Factor	6%
Universal Service Fund (80 x 6%)	\$4.8B
Approximate Annual Telecommunications Services Resold by Systems Integrators (Already included in contribution base above)	\$0.5B
Potential Additional Revenue for Funding Base Due to Systems Integrator "Markup" (Assume 10% markup: 0.5B x 10%)	\$50M
Revised Contribution Base Including Systems Integrator Markup on Resold Telecommunications	\$80.05B
Percentage Increase in Contribution Base (0.05 / 80) <i>LESS THAN ONE TENTH OF ONE PERCENT</i>	0.0625%
Revised USF Factor to Maintain \$4.8B Fund with \$80.05B Contribution Base <i>INSIGNIFICANT DECREASE</i>	5.9996%